DRN-4395632

The complaint

Mrs M complains that Tesco Personal Finance PLC (Tesco Bank) was irresponsible in its lending to her.

What happened

Mrs M was provided with two loans by Tesco Bank. The first loan was provided in 2015 and a further loan was provided in August 2018. Based on the timing of the loans, it has been agreed this decision will only consider the loan provided in 2018. The 2018 loan was for just under £30,000 and was repayable over seven years with monthly repayments of around £610.

Mrs M says that the loan was unaffordable, and she has had to take on more borrowing to make the repayments. She has explained that she suffers from a chronic illness and has to take time off work because of this, affecting her income. She says the debt has had a significant effect on her mental health.

Tesco Banks says that Mrs M applied for a top up loan on 8 August 2018. Her application was reviewed, and it was happy to proceed. It says when assessing loan applications, it considers the information provided on the application along with the information received from the credit reference agencies and its own lending criteria. It said that Mrs M didn’t have any adverse information recorded on her credit file and she said the loan was to refinance other debt including her previous Tesco Bank loan. It says Mrs M was able to maintain her repayments until April 2020.

Our investigator upheld this complaint. She thought that given the size and term of the loan Tesco Bank should have verified Mrs M’s income and expenditure to ensure the loan was affordable. She noted that Tesco Bank wasn’t required to obtain copies of Mrs M’s bank statements but as she thought the income and expenses should have been verified, she had relied on this information. Our investigator found that Mrs M’s average income at the time was around £1,520 and her credit commitments totalled around £848. Mrs M was paying £590 each month towards bills which left her with limited income for other expenses. She said that Mrs M was regularly borrowing from family members. Our investigator noted that the new loan was for debt consolidation, but she still thought that following this Mrs M’s level of indebtedness was unsustainable.

Tesco Bank didn’t agree with our investigator’s view. It said that Mrs M’s application was referred to its underwriting team for further checks and approved. It reiterated that the loan was to be used to refinance other debt, including Mrs M’s previous Tesco Bank loan, her credit card debt and other non-Tesco Bank loans. It said that it was reasonable it relied on the information Mrs M provided about her income which was £1,852 a month along with an additional £82 which it believed to be a benefit payment that could also be included. This gave Mrs M a monthly income of around £1,934. Deducting from this the new loan repayment of around £610 (with the assumption her other debts had been repaid by the loan), Mrs M's share of the mortgage repayments and the £590 living costs noted by our investigator, Tesco Bank said this would leave Mrs M with around £430 of disposable income. Based on this it didn’t agree the lending was unaffordable.

My provisional conclusions

I issued a provisional decision on this complaint, the details of which are set out below.

This decision is about the loan provided by Tesco Bank in August 2018. The 2018 loan was for a term of seven years and an amount of just under £30,000. This is a significant size and term and so I think the checks undertaken before the loan was provided needed to reflect this. It is also important to take into consideration that the loan was to be used to refinance other debts and so I have considered the extent to which this loan provided any additional credit to Mrs M and the overall impact on her credit repayments.

I have looked at the information provided through the application process. This showed that Mrs M was employed full time with a net monthly income of £1,852 and additional monthly income of £82. Mrs M was recorded as a homeowner with a joint mortgage. Her credit check results showed she had £20,551 of loans outstanding and £7,061 of unsecured debt. Tesco Bank noted that Mrs M had a good behavioural history with no missed payment on her 2015 Tesco Bank loan and her credit check didn't record any adverse data.

Having considered the information Tesco Bank received through its checks, I do not find that this raised concerns that Mrs M was struggling to manage her credit commitments at the time. Mrs M had made multiple credit applications in the preceding months and her indebtedness score was noted as being at the higher end of Tesco Bank's tolerance but given the purpose of the loan was to refinance her debt, I do not find this on its own meant the new loan shouldn't have been provided. But as the credit check highlighted that Mrs M had a high amount of existing credit commitments it was especially important to ensure that any new lending was sustainably affordable.

Mrs M declared a monthly income of £1,852 plus an additional income of £82 a month. I think it would have been reasonable to verify this given the size and term of the loan and noting Mrs M's indebtedness and her need to refinance. I have looked through Mrs M's bank statements for the months leading up to the loan. These show Mrs M was paid from the employer recorded on her application around £1,976 in May 2018, £1,461 in June 2018 and £1,412 in July 2018. This would give an average of just over £1,600 a month. Mrs M has said that she was on maternity leave at the time of the loan which reduced her income. I have nothing further to show this was discussed at the time and so I have relied on the income details shown in Mrs M's statements.

Additional to Mrs M's monthly salary she received income of over £1,000 from another source during June and July 2018. I understand that the additional income was not a regular source of income, but if this had been identified in any further checks it would have supported her declared income amount. Additional to her work income Mrs M was receiving £82 a month in benefits.

Mrs M had existing credit commitments that she was looking to refinance with the loan. Based on the credit check carried out by Tesco Bank the mortgage payments were £615 each month and it allocated 50% of this to Mrs M given it was a joint mortgage. Mrs M was paying £150 a month for her existing Tesco Bank loan and a further £296 in non-Tesco Bank loan commitments and an amount of £236 was calculated based on her existing unsecured credit commitments. This gave credit commitments (excluding the mortgage) of around £682 a month. Having looked through Mrs M's bank statements these support the amounts shown in the credit report.

The information provided by Tesco Bank shows that the new loan was to refinance the existing Tesco Bank loan (around £4,285), credit card (around £7,930) and other non-Tesco Bank loans (around £17,070). Looking at the credit report carried out at the time, the new *loan would have refinanced all of her unsecured debt. I note Mrs M's comment about this and not being able to repay all the debt but as this was the declared intention of the loan, I find it reasonable the assessment is carried out on that basis. The new loan repayments were around £610, this was a lower amount than Mrs M was previously paying towards her outstanding debts. On this basis this refinancing appears beneficial to Mrs M.*

I can see that Mrs M received money from family members and I note the comments about repaying this. But in this case, I have to consider what I can reasonably expect Tesco Bank to have been aware of had it undertaken more detailed checks. In this case I cannot say that Mrs M would have declared the family debts and there isn't a clear regular payment that would be included in the assessment. Therefore, while I have taken this into account in my overall assessment, I haven't included a specific repayment amount.

Additional to the credit commitments, Mrs M had to pay for her living costs. I can see she made a contribution to her joint account of £590 a month for bills. Her husband also contributed to this account, and it was used to pay for the mortgage and other household expenses. Taking Mrs M's credit commitments of £610 plus her contribution to bills of £590 gives her total monthly costs of around £1,200. I can see from Mrs M's sole account she was also paying for items such as transport and also paid some food costs but based on the above I do not find I can say that the 2018 loan should have been considered unaffordable. I say this both based on the declared income set out above but also if the lower income figure of around £1,600 (based on the lower calculated salary provided by our investigator plus the £82 monthly benefits) is used. I appreciate this lower income figure leaves limited disposable income after expenses, but I do not find it is such that I can say the loan should have been considered unaffordable. And adding to the assessment that the loan refinanced other debts which should have resulted in a reduction in Mrs M's monthly expenditure on credit commitments, I do not find in this case that I have enough to say this loan shouldn't have been provided.

Tesco Bank accepted my provisional decision and Mrs M didn't respond.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

There isn't a specific set of checks that a lender is required to carry out but as our investigator explained the lender must undertake a reasonable assessment of creditworthiness and affordability. Affordability checks need to be proportionate taking into considerations factors such as – but not limited to – the size of the loan, the repayments, what the lender knew about the consumer, and the things the consumer told it about their circumstances.

I set out my reasoning in my provisional decision and as no new information was provided in response to that my conclusions haven't changed. That is, while I think that given Mrs M's existing credit commitments it was important to get a clear understanding of her financial situation to ensure any new lending was sustainably affordable, I do not find in this case that further checks would have suggested the new loan wasn't affordable. Taking into account that the loan refinanced other debts, reducing Mrs M's monthly expenditure on credit commitments, I do not find I have enough to say this loan shouldn't have been provided.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs M to accept or reject my decision before 9 November 2023.

Jane Archer
Ombudsman